



Assessment of Environmental Liabilities and Corporate Entities' Activities

Kadiri-Ikharo, Hauwa Lami¹, Dr. Clement E. Ozele², Dr. Mary Josiah³

¹Department of Accounting, College of Business and management studies, Igbinedion University, Okada
hauwa.ikharo-kadiri@iuokada.edu.org

²Department of Accounting, College of business and management studies, Igbinedion University, Okada.

³Department of Accounting, College of business and management studies, Igbinedion University, Okada.

ABSTRACT

Concern over how corporate operations harm the environment, particularly in developed countries, has significantly increased in recent years. The issues are more focused on how to protect the environment now so that it can be used by corporate organizations in the future for their operations. Depletion of finite natural resources, waste management strategies, pollution (air, noise, or soil) management techniques, and other activities with major environmental effects are examples, but they are not the only ones. This research was done to theoretically investigate environmental obligations and corporate operations. The notion of environmental liability, actions that may result in environmental liabilities, the necessity of include environmental liabilities in reports to stakeholders, and the steps taken to ensure environmental sustainability are all explained in the study. We concluded that the concept of environmental liability should be given more attention to and the financial statement should contain information on environmental liability. We recommended that relevant bodies on environmental issues and regulatory matters should make relevant standards that will give more attention to environmental liability.

1. Introduction

The impact of a corporate entity's operations on the environment has garnered significant attention and discourse in recent times, especially in developed nations. As business entities carry out their operations and benefit from the environment, the concerns are more focused on how the environment can be conserved now for the future.

This can include but is not limited to depletion of scarce natural resources, waste management measures, pollution (air, noise or soil) management practices and other activities with significant environmental effects.

Economic policies that prioritize output growth over the depletion of natural resources and environmental harm are putting the environment in jeopardy. The unbridled avarice of corporations in their search and extraction of natural gas and crude oil is mostly to blame for the ongoing harm done to the delicate ecosystem and public health. The survival of the population is in danger as a result of the multiple spills, gas flaring, pollution, flooding, coastline erosion, earthquakes, and other effects of these activities. (Ugboma, 2015).

Corporate entities must evaluate both the internal and external environmental impacts of their operations, as well as measure, account for, and provide for environmental liabilities in their books of account. A significant number of laws and regulatory agencies that oversee environmental regulation in Australia create a wide range of environmental responsibilities (Sealey and James, 2018). A business entity's liabilities may also be established in an agreement with a landowner or community organization.

Companies are accountable for environmental pollution and anything that can lead to environmental contamination, whether caused by their past, current, or future commercial operations, and they must thus make steps in the future to prevent contamination or its spread. (Ricoh, 2021).

Because of the impact of these companies' operations, organizations and governments must consider "defensive expenditure" to protect or restore the environment, as well as "user cost" for natural resource depletion and degradation, as part of their production costs. Companies should be committed to decreasing the environmental impact of their activities, and programs should be modified on an annual basis to help bring about significant and demonstrable development (Ugboma 2015). Natural resource damages are defined as the destruction or loss of use of natural resources (flora, fauna, air, water, and land) owned or controlled by the federal, state, local, international, or tribal authority.

A number of International Accounting Standards, including IAS 36 on Impairment of assets, IAS 37 on Provisions, Contingent Liabilities, and Contingent Assets, and, to a lesser degree, IAS 38 on Intangible Assets, are particularly pertinent to environmental challenges. Based on the researcher's

understanding, it has been observed that the idea of environmental liabilities has not received much attention in the literature hence, this study has been carried out to assess the environmental liability and corporate entities' activities theoretically.

The broad objective of this study is to evaluate the environmental liabilities and the activities of corporate entities in Nigeria. The specific objectives of this study are;

- (a) To know a couple of the activities that can lead to environmental liabilities.
- (b) To demonstrate the need for incorporating environmental liabilities into the reports presented to stakeholders.
- (c) To evaluate the measures put in place to guarantee environmental sustainability.
- (d) To further create awareness of environmental liability.

2.0 Literature review

Concept of environmental liabilities

When a buyer purchases or rents an item, they may incur environmental expenses. This is referred to as environmental liability. The liabilities arise during a buyer's due diligence on the property, and they must be assumed by the buyer once the asset and its connected obligations have been acquired (Corporate Finance Institute, 2022). The Federal Accounting Standards Advisory Board (FASAB) defines environmental liability as a likely, measurable, and reasonably estimable future outflow or expenditure of resources available as of the financial reporting date for environmental cleanup costs resulting from previous transactions or events. According to Law Insider(2022), [environmental liabilities](#) means, with respect to any person, all liabilities, obligations, responsibilities, response, remedial and removal costs, investigation and feasibility study costs, capital costs, operation and maintenance costs, losses, damages, punitive damages, property damages, natural resource damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants), fines, penalties, sanctions and interest incurred as a result of or related to any claim, suit, action, investigation, proceeding or demand by any person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law, including any arising under or related to any environmental laws, environmental permits, or in connection with any release or threatened release or presence of a hazardous material whether on, at, in, under, from or about or in the vicinity of any real or personal property.

However, Nuta and Nuta (2012) view environmental liability as a duty that could lead to future payments for the business because of previous occurrences or to make up for damages the company has caused to a third party that has been injured by its environmental damage. They went on to say that "the word environmental liabilities can be separated into two categories: either environmental risks, which are included in the financial statements' notes, or environmental liabilities that are incurred and reported in the financial statements themselves. Two sources can be used to determine incurred liabilities. First, there are legal duties, such clearing land of illegal activity, paying a fine, or filing a lawsuit to get recompense. Then there are the contractual duties imposed by two or three of those environmental protections. The passive type of environment is treated differently in accounting than other firm obligations. Sometimes voluntary actions to stop pollution or restore an area result in the recognition of a liability (Nuta and Nuta,2012).

An environmental liability is defined by the Department of Defense Financial Management Regulation (DoDFMR) as a likely and quantifiable future outflow or spending of resources for environmental remediation expenses stemming from previous transactions or occurrences that existed as of the financial reporting date. Within this particular context, environmental cleanup costs encompass expenses related to the restoration of environmentally significant locations; corrective measures; and environmental expenditures related to the eventual disposal of facilities, equipment, weapons, or facility closure. Decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs associated with DoD operations that produce hazardous waste are just a few examples of the cleanup expenses that may arise. There must be a legal motivation connected to the environment for the expense of environmental remediation to be deemed such. Let's say the DoD bought the tank to store a liquid like water that doesn't harm the environment. Even in the event that the water tank spilled, there would be no environmental liability because no legal requirement exists for the cleanup of leaking water.

Everyone has an obligation to mitigate their impact on the environment by taking appropriate measures to undo the acts that have led to environmental degradation (Boyd, 2002; BrunnÉee, 2004; Shen, 2022).According to the environmental legal system, it is vital to preserve and repair environmental harm in order to hold individuals accountable. Environmental integrity is jeopardized and an environmental responsibility arises when environmental requirements are not fulfilled (Kotzé, 2007). Therefore, detrimental effects on the environment undermine the objective and principle of sustainable development.

Different environmental legislative frameworks regulate environmental obligations and liabilities. Environmental liability is not dependent on whether that position of the land is owned by an individual but rather where there is environmental degradation of that land, the person who is responsible for such a degradation is deemed environmentally liable for the remediation of that land or compensate the re clean-up of that land (Field, 2006; Winter et al., 2008).

Types of Environmental Liabilities

According to the Corporate Finance Institute (2022), there are five basic forms of environmental liabilities, which differ based on their source. Environmental liabilities are typically related with federal, state, or local laws, which are enforced by public authorities at all levels of government.

Environmental liability obligations fall into the following categories:

Compliance Obligations

According to the Corporate Finance Institute (2022), compliance requirements are regulations that govern the manufacture, use, and disposal of chemicals and other dangerous substances in the environment. When purchasing an asset to be utilized in the manufacturing process of goods, a company must examine current compliance standards as well as the prospect of new laws being implemented. To achieve compliance with present legislation, the organization will be expected to bear some costs that protect it from future liability.

One of the expenses is the administrative cost of recording processes, labeling chemicals, and training personnel tasked with handling the hazardous compounds. A company may also incur costs for containing chemical spills, managing the negative impacts of air pollution, waste treatment, and exit costs for closing disposal sites. Failure to manage the environmental effects of trash can result in lawsuits and legal action against a firm by government bodies.

Companies that produce, use, or release regulated substances may find their compliance costs rise as a result of new or updated laws and regulations. The National Oil Spill, Detection and Response Agency Act 2006, the National Park Services Act (Cap N65 LFN 2004), the Environmental Impact Assessment Act (Cap E12 LFN 2004), the Hazardous Waste (Special Criminal Provisions etc.) Act (Cap H1 LFN 2004), the Endangered Species (Control of International Trade and Traffic) Act (Cap E9 LFN 2004), and the Nigerian Minerals and Mining Act 2007 are a few of the laws that exist in Nigeria. This, together with the Water Resources Act (Cap W2 LFN 2004), repealed the Minerals and Mining Act No. 34 of 1999 and reenacted the Nigerian Minerals and Mining Act 2007 with the aim of controlling the exploration of solid minerals.

Remediation obligations

Remediation obligations require businesses to manage the effects of pollution or [industrial activities](#) that pose a risk to human health and the environment. Environmental liability is associated with compliance obligations since managing the current obligations can help reduce the remediation obligations that the business will be required to meet in the future.

Remediation obligations may comprise water treatment, excavations, monitoring, evaluating the environment for adverse effects, relocating communities to safer areas, re-constructing damaged properties, and response costs incurred by government agencies. An entity may face remediation obligations for negative impacts on the environment for formerly owned or used sites, sites it never owned but contaminated, and sites it owns and has not contaminated.

The distinction between compliance obligations and remediation obligations is not always clear. A compliance obligation is for the routine closure of facilities at the end of their productive lives, while the remedial obligation is to clean up pollution that could adversely affect the environment. An entity may face remediation obligations for negative impacts on the environment for formerly owned or used sites, sites it never owned but contaminated, and sites it owns and has not contaminated (Corporate Finance Institute, 2022).

A company may face remediation obligations from contamination of the following: inactive sites that are unregulated; [property previously owned](#); property never owned or used, but used for waste disposal; property acquired but not contaminated.

Fines and penalties

An entity may also be required to pay fines and penalties for non-compliance with applicable laws and regulations that protect the environment from pollution and degradation. The costs are added to the cost of compliance that a firm is required to pay and are used to fulfill punitive functions.

A public agency may estimate the cost of the fine or penalty after determining the severity of the violation and its impact on both people and the environment. Usually, the fines are calculated so that they are equal to the costs that the company avoided by not complying. It can vary from a few dollars to several million dollars for every violation against the environment committed by the firm. (Corporate Finance Institute, 2022).

The public agencies in Nigeria include; National Environmental Standards and Regulations Enforcement Agency (NESREA); Federal Ministry of Environment; Directorate of Petroleum Resources (DPR); Nigerian Nuclear Regulatory Authority; Federal Ministry of Water Resources; National Oil spill Detection and Response Agency (NOSDRA); National Biosafety Management Agency; Department of Climate Change; Energy Commission of Nigeria; Erosion, Floods and Coastal Zone Management; Department of Planning, Research and Statistics; Drought and Desertification Agency; National Oil Spill Detection and Response Agency.

Compensation obligations

Compensation duties include payment for harm done to people or their property by a company. The introduction of dangerous compounds into the environment is to blame for this. Even if a company complies with all other environmental requirements, it may still be subject to compensation obligations. Economic loss, property damage, or personal harm are all categories that compensation responsibilities can fall under.

While compensation for property damage may include loss of farm crops and livestock as well as damage to real estate and cars, compensation for personal injury may cover bodily harm, pain, and wrongful death. Equipment loss, lost profits, and loss of sources of income are some examples of claims for economic loss (Corporate Finance Institute, 2022)

Punitive Damages

Punitive damages are more costly than compensatory damages, but they serve the same purpose. Punitive damages are meant to stop companies from acting in a way that ignores other stakeholders in the environment and to discourage other companies operating in the same industry from acting similarly. Punitive damages are rarely granted and usually amount to more than the actual cost of the harm or loss to a person, a community, or the environment.

The legislation allows for the payment of punitive damages in addition to compensatory recompense to those harmed by the actions of others, with the goal of discouraging actions that ignore others. Punitive damages are more costly than compensatory damages, but they serve the same purpose. Punitive damages are rarely awarded and typically come with a price tag higher than the harm or loss done to an individual, a community, or the environment (Corporate Finance Institute, 2022).

The Need to Incorporate Environmental Liabilities into Financial Reports

Environmental liability is a duty that may result in additional costs for the company due to past events or as compensation for a third party that the company caused environmental harm to. As per this definition, the term "environmental liabilities" can be elaborated into two categories of obligations: financial statement-based obligations (liabilities) and non-financial statement-based responsibilities (liabilities). Liabilities can be ascertained from two sources. First, there are legal obligations, like compensation claims filed in court, land rehabilitation, and fines related to offenses. Then there are the obligations under contracts arising from such environmental safeguards, which two or three parts make use of. The way the corporation treats the passive type of environment in accounting is different from how it treats its other commitments. Even when voluntary steps are taken to prevent pollution or restore it, there are situations in which a liability is acknowledged.

Because environmental accidents are becoming more frequent and have substantial financial consequences for businesses, accounting for environmental liabilities has become essential. For example, in 1999, the multinational company Monsanto allocated roughly 83% of its net income for site rehabilitation. (Nuta & Nuta, 2012). Potential environmental liabilities differ in terms of their relevance and significance as well as how certain future payments are when they are made. To be taken into account, environmental culpability needs to be the outcome of a previous commitment that can most likely be measured. Consequently, any environmental obligation may arise whenever: 1) a legal need exists; or 2) management seeks to prevent, reduce, or otherwise address an environmental impact. Accounting for finances Companies can communicate with their stakeholders through a variety of media, including the press, the internet, annual meetings, conference calls, management reports, and financial reports. The latter are the main means of communication between public corporations and the financial markets.

Accounting is required when achieving environmental objectives that involve interactions with third parties, training current and future financial commitments, or both. When obligations are uncertain whether they fulfill the requirements for relative importance and measurement is not reasonably estimable, these obligations must be related notes given in financial statements. Furthermore, environmental accounting unifies products, expenses (assets, costs), and obligations (liabilities), mostly in posts. The regulations stipulate little more than that they must be presented individually, save for the specified eventualities. Assessing the importance of the financial results of the company environment can be difficult for those who use financial reports. There are, of course, prerequisites. In an effort to meet the rising demands of stakeholders, businesses are increasingly circumventing these limitations or publishing environmental reports separately from financial reports that contain environmental information. Non-financial companies have been publishing reports on environmental information exchange since 1990.

This technique was initially ignored, but it has since significantly changed in terms of report substance and the number of organizations that have implemented it. A non-financial report addressing environmental issues was released by 28% of the corporations in a 1993 KPMG study of over 100 from 11 important North American, European, and Oceania countries (Nuta & Nuta, 2012). Furthermore, just 10% of the corporations that comprise the public TSX composite index supplied performance statistics on sustainable development in 2000, according to Stratos (2004), a nonprofit dedicated to promoting sustainable development in Canada. Environmental reporting types have evolved throughout time. Reports initially largely included strict environmental data.

In addition, the idea of sustainable development is becoming increasingly in line with contemporary trends. It attempts to incorporate the ideas of environmental protection and corporate social responsibility into a single report. Non-multiple business names are used in this study, like "report on sustainable development and social balance." In order to help businesses better satisfy stakeholder expectations, numerous national and international organizations have produced a set of standards that define the preparation and dissemination of these reports. Two specific standards being created by the International Institute of Professional Accounting are the AA1000 standard and the GRI Global Reporting Initiative Index Guidelines. As a result of an alliance between CERES and the United Nations Environment Programme (UNEP), GRI was founded in 1997. In 2002, the group published a framework for performance indicators, sectoral supplements, and reporting guidelines for sustainable development. Rather than being used to prepare the already-in-effect accounting standards, these guidelines are meant to act as a guide for withholding correct and trustworthy information that PCGR requests. The GRI recommendations on the content balance triple AA1000 standard state that the data must have commercial and stakeholder meaning. AA1000 focuses on three main requirements: responsiveness, relevance, and completeness. One essential legal component is the involvement of stakeholders during the entire triple balance creation process.

However, in order for corporate entities' financial reports to show the true picture of their activities and efforts at environmental sustainability, it is necessary to disclose its environmental liabilities, whether they have already been incurred or are likely to occur in the future. Managers must also exercise great judgment while making decisions. Making informed decisions, monitoring outcomes, and ensuring accountability all require accurate and timely information (Schneider, 2011). Users of financial statements are given information that may be useful through both recognition and disclosure. It is also vital to put these stated environmental problems into real terms by using established metrics and indicators. The only way to put sustainability into practice is through a set of well defined and standardized metrics. These are currently the accepted global procedures for corporate organizations to assess and document the environmental effect of their operations and environmental sustainability initiatives.

Recognition, Measurements and Disclosure of Environmental Liabilities

When determining environmental liabilities, care must be used. Due to the potential for environmental liabilities to be susceptible to various uncertainties, many of which are in the form of contingencies, environmental liabilities provide some particularly challenging financial reporting difficulties. Estimates for environmental liabilities should take into account the expenses of adhering to the stricter federal, state, municipal, or other applicable requirements or permits. As soon as a business event has an impact on the financial statements, environmental liabilities are recognized. A demonstrable future outflow or spending of resources is likely for actions or operations deriving from environmental regulatory requirements, thus keep in mind that there is an environmental liability.

Recognition

Cost estimations are used to calculate environmental liabilities. Cost estimates include both direct expenditures, like the materials used for cleanup, and indirect costs, like administrative assistance, which cannot be directly linked to the project but is nevertheless assigned to it. Determine the amount that has to be recorded on the balance sheet for the reporting period in which the obligation occurred after creating the cost estimate. (The unrecognized cost is covered in the financial statements' accompanying notes.) If the entire liability will not be recognized right away, the environmental liability will be gradually allocated over time using the asset's life or capacity as a measure of the recognized liability. Systematic recognition enables a firm to record this cost of doing business in the reporting period it occurred, even if payment of the environmental liability is not anticipated within the reporting period.

The foundation for recording provisions in an entity's books is IAS 37. It further states that an entity must recognize a provision if and only if (a) A present obligation (legal or constructive) has arisen as a result of a past event (the obligating event), (b) Payment is probable, (c) The amount can be estimated reliably, and (d) There is a reasonable possibility that payment will occur.

Measurement

The amount to be recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. IAS 37 provides that;

- (a) Provisions for One-off events (restructuring, environmental cleanups, settlement of a lawsuit),
- (b) Provision for large probable events,

Both measurements are at discounted present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the liability.

IAS 37 also outlines that in re-measuring a provision review and adjust provisions at each balance sheet date and if an outflow is no longer probable, the provision should be reversed.

Disclosure

Financial statement disclosures include pertinent details about amounts reported on the financial statements and unacknowledged costs in the form of notes or narratives. These disclosures guarantee the completeness and transparency of the financial accounts. Contingency-based environmental responsibilities ought to be declared. According to IAS 37, all of these provisions must be reported along with a reconciliation and a brief explanation of the timing, nature, assumptions, and uncertainties, as well as any reimbursements that may apply.

The financial statement remark for each reporting period must include certain disclosures about recognized environmental liability balances and unrecognized costs. For the duration of the liability and in compliance with retention rules, keep records supporting the identification and disclosure of environmental liabilities (DoD, 2006).

Environmental Sustainability

In order to prevent the depletion or degradation of natural resources and to maintain long-term environmental quality, environmental sustainability is defined as responsible engagement with the environment. By adhering to environmental sustainability principles, we may make sure that the requirements of the current generation are satisfied without endangering the needs of future generations. Lawrence (1997)

The duty to preserve natural resources and safeguard global ecosystems in order to promote health and well-being both now and in the future is known as environmental sustainability. Environmental sustainability relies heavily on forward-thinking judgments because many environmental impacts are not noticed right away (Sphere, 2020).

Adam (1999) defined sustainable development as development “to meet the needs of the present without compromising the ability of future generation to meet their own needs”. Sustainable development aimed at the protection of the environmental factors while promoting social and economic growth (Lawrence, 1997; Oyedepo, 2012),

According to Wikipedia (2022), the metrics used to measure sustainability (the sustainability of environmental, social, and economic domains, both individually and in various combinations) are still evolving: indicators, benchmarks, audits, sustainability standards and certification systems such as Fair Trade and Organic, indexes and accounting, as well as assessment, appraisal, and other reporting systems. They are applied on a variety of spatial and temporal domains. Corporate sustainability reporting, Triple Bottom Line accounting, the World Sustainability Society, and estimates of the quality of sustainability governance for individual countries using the Environmental Sustainability Index and Environmental Performance Index are among the most popular sustainability measures. An alternative approach, measures [sustainable development](#) using the UN's [Human Development Index](#) and the [ecological footprints](#) to visually track [sustainable development](#) over time.

Guaranteeing Environmental Sustainability

Environmental investment is no longer viewed as an additional expenditure; rather, it is an integral component of being a good corporate citizen, and environmental reports are regarded as necessary for interacting with stakeholders in order to address their environmental issues. Companies are realizing that it is their corporate responsibility to achieve sustainable development, which means meeting today's requirements without jeopardizing future generations' ability to fulfill their own. Economic growth is important for both shareholders and other stakeholders because it creates the conditions for optimal environmental protection, and environmental protection must be balanced with other human goals in order to achieve sustainable growth (CFI, 2004).

Some of the benefits of guaranteeing sustainable environment include; boosting corporate entities brand value; attracts Investors; protect the health and safety of employees

Sustainable businesses gain efficiencies and operate more profitably than non-sustainable ones.

Gearge, *et al.*(2019) Studies forty (40) companies with strong records of sustainability and learned the following;

- (a) They go through a deliberative evolutionary process. First, a progressive acknowledgement of the importance of environmental, social, and governance issues (ESG) to the company's business interests. That leads to an understanding of the relevance of the broader issue of sustainability and, for some companies, subsequently seeing how specific SDGs fit with their business interests. The “drivers” that link sustainability and the SDGs to the corporate interest can be either business-case or values-case.
- (b) Companies embed sustainability in their corporate strategies through three mechanisms. Strategic integration, operational integration, organizational integration.
- (c) Measurement.
- (d) Adopt good practices

Theoretical Framework

In order to understand how businesses interact with their surroundings, it is important to understand the notion of legitimacy. Legitimacy, according to Parsons (1960), is the assessment of a behavior in terms of shared or common ideals within the framework of the activity's engagement in social society. The process by which an organization demonstrates its legitimacy to import, export, and change energy material or information to a peer or superior system is known as legitimation, according to Maurer (1971). The core of legitimacy theory is the concept of organizational legitimacy, defined as "a condition or status that arises when an entity's value system is consistent with the value system of the large social system of which the entity is a part." When there is a genuine or potential disagreement between the two value systems, the legitimacy of the entity is put at risk (Dowling & Pfeffer, 1975). Preston et al. (1995) defined legitimation as the actions that institutions take to either publicly demonstrate their alignment with society norms or to alter them, while legitimacy is defined as the alignment of institutional behavior with societal values. Legitimacy is achieved by demonstrating that a company's actions align with societal values.

Legitimation can be achieved through following the law, establishing an environmental committee or position to monitor a company's ecological impact, forming committees or networks with local community representation, conducting environmental audits, putting up an emergency response system, and associating the business with environmental advocates, according to Bansal and Roth (2000). Legitimacy theory centers on the concept of a social compact, positing that an organization's capacity to endure is contingent upon its adherence to established societal regulations and standards (Brown & Deegan, 1998).

Legitimacy theory is a conceptual framework predicated on the existence of social and exchangeable relationships between a corporation and the community. This paradigm seeks to elucidate the rationale behind and methods by which companies disclose certain social and environmental information, together with the impacts that these disclosures have on the broader public and local community. A company's actions toward the community may indicate whether or not it is contributing to the community or causing it to fall apart if it ignores its social and environmental obligations. Consequently, logical reasoning in the form of a set of broad principles that may be applied to support or explain environmental disclosure practices is what is meant to be understood as legitimacy theory.

Legitimacy theory may help shed light on the reasons for a company's disclosure of social and environmental information, regardless of its operations, as it seeks to justify these reasons. In a society where economic activity regularly damages the environment, regulation is seen as a solution (Everett & Neu, 2000). According to Gray (1996), environmental reporting must be regulated by law in order for it to become customary, widespread, and beneficial. Deegan et al. (2000) assert that stakeholders ought to be apprised of the environmental consequences of a business's activities continuously, rather than only when circumstances have compelled management to take action that jeopardizes their credibility. Regulation may be necessary to ensure that this right to information is fulfilled. According to Gray (1992), the information contained in corporate statements is governed by the categories established by law and quasi-law, which are probably going to be enlarged to include, in particular, social and environmental impact information.

Over time, laws and regulations pertaining to environmental preservation have expanded in many different countries. Since stakeholders have an impact on enterprises, many would be aware of the possible financial risks associated with corporate actions. For instance, since the establishment of the Environmental Protection Agency's office of criminal enforcement in 1982, the prosecution of corporations for environmental crimes has steadily increased, and the average fine increased from \$48,000 in 1986 to \$195,000 in 1988 (The Economist, 1990).

Amendments to US environmental legislation, according to Epstein (1996), have strengthened civil and criminal sanctions and required financial participants to consider environmental concerns when assessing risk and return. This theory aims to explain how a company interacts with the community, why it discloses social and environmental information, what tactics companies can use to gain legitimacy, and how social and environmental disclosures affect society and the public at large. The legitimacy hypothesis could be helpful in predicting management's response to particular circumstances or emergencies.

The legitimacy theory, which is founded on the aforementioned justifications, can also support the notion of environmental liability and business activity. The legitimacy theory, which we believe is the best appropriate to describe the relationship between an organization's activities and the impact of those activities, serves as the theoretical foundation for this study.

Empirical Literatures

Environmental liability has not received much attention globally, there is a dearth of empirical literature on the topic. To further sustainable development, Apelele et al. (2020) examined the environmental responsibilities and liabilities of an electricity distribution company. In order to achieve research objectives and address research issues, environmental obligations, liabilities, and sustainable development are identified. The link between the variables is examined using a correlation coefficient test. There was a positive (+ 1) correlation between the variables as well as enhance sustainable growth. The outcomes showed how the power distribution firm performed in relation to its environmental responsibilities and liabilities for any environmental harm that was produced. The findings contribute to our understanding of how to enhance sustainable growth, avoid financial responsibilities, and save the environment.

Environmental events at the energy distribution company resulted in environmental responsibilities and associated liabilities. These obligations impede efforts to achieve sustainable development on a comprehensive scale by posing a threat to protected bird species. The findings showed that some environmental incidents were not reported and that hotspots for incident occurrences were not identified, which will have a detrimental influence on sustainable development. As a result, the integrity of the environment is adversely affected. They suggested that in order to promote sustainable growth, environmental management systems may help in addressing environmental commitments and related liabilities. In order to improve environmental performance, meet environmental duties, and satisfy environmental compliance requirements, the system offers an international standard that guarantees appropriate procedures, risk identification, and environmental factors.

Chukwu et al. (2020) investigated how projections of environmental restoration and decommissioning affected the stock valuation of Nigerian oil companies. The study also looked at the value relevance of these estimations of environmental liability in Nigeria. Regression analysis was used in the study to examine data from four publicly traded oil companies that calculated and disclosed decommissioning liabilities in their annual reports between 2012 and 2018. Results showed that environmental liability estimations are negatively valued by investors in Nigerian oil and gas companies. This conclusion may arise from the fact that Nigerian investors interpret these projections as indicating the degree to which the company will harm the environment. Investors are leery of any hint of an environmental breach given the negative effects of environmental degradation in Nigeria. The market value of Nigerian oil companies is not correlated with changes in decommissioning and restoration projections, most likely because investors are not sophisticated enough to understand the rationale behind these adjustments. Furthermore, for the seven years under investigation, a few listed oil companies did not include environmental liabilities in their annual reports; this could be because there is no legal requirement to restore the environment. They suggested that regulations explicitly requiring environmental restoration for polluting companies operating in Nigeria be taken into consideration by the nation's environmental regulators. Accounting authorities might make sure that oil companies that have facilities that have an impact on the environment include a provision for environmental liabilities in their financial statements if there was a legislative obligation of this kind.

Yang and Zhang (2022) analyzed the relationship between environmental pollution Liability Insurance and corporate performance based on the existing literature; subsequently, based on the list of environmental pollution Liability Insurance-insured companies in 2014 and 2015 published by China's environmental protection department as a sample, they used a fixed-effects model to conduct an empirical analysis, and the mediating role of corporate social responsibility (CSR) was then examined finally, heterogeneity analysis of the initial conclusions was conducted. They discovered a strong inverse relationship between business performance and environmental contamination liability insurance. Second, corporate social responsibility (CSR) acted as a moderator in the relationship between environmental pollution liability insurance and corporate performance. In other words, by impacting CSR, environmental pollution liability insurance slowed the growth of corporate performance. Thirdly, there are differences in the way that corporate

performance is affected by environmental pollution liability insurance depending on the degree of marketization, corporate pollution level, and equity type. They suggested that government agencies focus more on and enhance the development of an environmental and ecological legislative framework. In addition to strengthening the penalties for pollution, the government should work to improve social supervision and pique the interest and concern of the public, the media, social organizations, and other groups in environmental protection measures. Ladychenko et al. (2019) looked at Ukraine's environmental protection laws and how they are applied in the real world. They wanted to know what obstacles the country faces most when it comes to harmonizing its environmental laws with EU law as required by the Association Agreement. They also offered recommendations on how to address these problems more effectively. The experience of EU member states with regard to environmental liability is also mentioned in this article.

. Legal nature, content and meaning of the criminal liability of legal persons in the environmental sphere according to the law of EU member states were studied in order to determine the appropriateness and mechanism of implementation of such responsibility in Ukraine. He recommended that criminal liability of legal persons should be established.

Romulo et al (2016) examined the environmental liability of investors and lenders; how much is too much? An outline of the regulations and concerns surrounding Investor Environmental Liability (IEL) and Lender Environmental Liability (LEL) was provided. They observed that damage and deterioration to the ecosystem are frequently irreversible. They therefore assume that the primary goal of any national and international environmental law framework is prudence. They investigated the circumstances in which LEL and IEL can be useful instruments for encouraging prudence. To demonstrate their point, they developed a model based on Nash's game theory in an attempt to generalize certain fundamental notions in the design of these systems. Using Nash's game theory, they hope to answer the question posed in the title of our paper: how much environmental liability is too much for a financial institution to bear? They suggested that complete environmental liability (in which financial institutions incur unlimited liability) may have the unintended consequence of motivating them to internalize any duty of care, if they bear full liability.

3.0 Conclusions

There are numerous pressures on all types of stakeholders in the modern corporate climate. Today's business must answer to a wide range of interests and produce more than just financial reports. The primary goal of a company is still to make money for the investors, but given the current market challenges, this task is increasingly challenging to complete. Along with the usual financial hazards, there are a number of non-financial dangers that are considerably more dangerous because they require distinct approaches. The professional groups and regulators released rules and guidelines in response to these new circumstances. Today, there are many more users who can access the reporting frameworks than just shareholders, so the report must be more detailed and complex.

Effective business strategies now incorporate sustainability development as the main metric of improvement for corporate entities. Improvement in operations, benchmarking performances, monitoring progress, and process evaluation are a few of the requirements for sustainability measurement. In order to quantify sustainability in connection to sustainable development, the UN has created a System of Integrated Environmental and Economic Accounting. Green accounting, sustainable value, and sustainability economics are some accounting systems that make an effort to account for environmental costs rather than treating them as externalities.

As a result of globalization, the public now expects business entities to act ethically and accountably in order to reduce their environmental impact. The need for increased accountability and openness about a company's non-financial repercussions is growing. This increased scrutiny and the speed with which news and views are spread necessitate a more methodical approach to managing such environmental liabilities.

4.0 Recommendations

We must take steps to reverse these consequences and prevent more harm so that future generations can live in healthy ecosystems. As we start to feel the long-term effects of exponential industrial growth and energy use, we must act to reverse these effects and avoid further damage. It is advised that corporate entities commit to environmentally friendly practices to assist create vibrant communities and secure possibilities for future growth.

The implementation and ongoing monitoring of environmental policies is also advised. Specifications aimed at important industries and environmental issue regions are necessary for the natural environmental policy's implementation. As a result, this policy's approach to problem solving is based on a comprehensive, organized, and systematic understanding of environmental challenges. The planned activities will create and/or strengthen legal institutional regulatory research, monitoring evaluation, public information, and other pertinent mechanisms for assuring the achievement of the policy's particular aims and targets.

Additionally, it is anticipated that these strategies will result in the setting of appropriate environmental standards, monitoring and evaluation of environmental changes, publication and dissemination of pertinent environmental data, and preliminary environmental evaluation of proposed activities that may have an adverse impact on the environment or the use of natural resources.

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